

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2001-137-W - ORDER NO. 2002-535
JULY 26, 2002

IN RE: Application of A. D. Hare Waterworks, Inc.)
for Approval of an Increase in Its Water Rates)
and Service Charges.) ORDER APPROVING ✓
RATES AND CHARGES

This matter comes before the Public Service Commission of South Carolina (the Commission) on the Application of A. D. Hare Waterworks, Inc. (A. D. Hare or the Company) for authority to increase its rates and charges for water service provided to its customers in its approved service area in, Pinopolis, Berkeley County, South Carolina. The Company provides service to approximately 622 water customers and is presently operating under rates and charges set by this Commission in Docket No. 90-621-W by Order No. 92-318. Appendix A of Order No. 92-318 was amended on June 3, 1991 in Order No. 92-412 to include monthly commercial rates.

Pursuant to the instructions of the Commission's Executive Director, the Company published a Notice of Filing, one time, in newspapers of general circulation in the Company's service area, and served a copy of said Notice on all affected customers in the service area. The Company furnished affidavits to show that it had complied with the instructions of the Executive Director. No Petitions to Intervene were received. One Protest was received.

The Commission Staff (the Staff) made an on-site investigation of the Company's facilities, audited the Company's books and records, and gathered other detailed information concerning the Company's operations. The Company responded to Staff's Data Request.

A hearing was held on June 12, 2002 at 10:30 a.m. in the offices of the Commission. As per State law, a panel, consisting of Commissioners Clyburn, Moseley and Saunders heard the case. Commissioner Clyburn acted as Chairman. A.D. Hare was represented by Joseph M. Epting, Esquire. A. D. Hare presented the testimony of Dan Hare and D. Joe Maready. Richard W. Cleeve, Jr. testified as a Public Witness. The Commission Staff was represented by Adelaide D. Kline, Staff Counsel. The Staff presented the testimony of Barbara J. Crawford and William O. Richardson.

Dan Hare, Vice President of A.D. Hare Waterworks, Inc., testified on behalf of the Company. Mr. Hare proposed a rate increase of the basic facilities charge for water service from \$8.00 to \$9.95 per month for residential and commercial customers. He also proposed an increase of the commodity charge from \$2.10 to \$2.95 per month per customer. Mr. Hare requested the Tap Fee be increased from \$300 to \$500 per customer. He did not request an increase in the Reconnection Charge of \$30 or the New Customer Charge of \$20.

Mr. Hare stated that the A.D. Hare Waterworks, Inc. is a family owned business that was started by his father and has been managed on a continuing basis by his mother. He said it has served the town of Pinopolis for many years and has been regulated by the Public Service Commission for over thirty years. Mr. Hare said the Company last came

before the Commission for a rate increase ten years ago. He said the Company has operated in the red for about the last nine years. By way of explanation, he stated that regular operating costs for the water service have increased because the price of fuel and electricity have gone up. He said that while costs of operating the business have gone up, the consumption of water by customers has decreased and the growth rate has only been about 6 to 8 new customers a year. Mr. Hare said the recent average monthly consumption of water has been down by about 850 gallons per customer. He attributed the decrease in consumption to the fact that customers are conserving water due to drought conditions and he said over the last several years, a lot of the new customers have been mobile home residents who use less water than larger, full size homes.

As to improvements to the water system, Mr. Hare testified that his Company has been replacing the older 2 inch galvanized pipe with 4 inch lines. He described the area served by A. D. Hare as the peninsula of Pinopolis, near Moncks Corner, South Carolina, with water service also extending out into the Whitesville Road area. He said the Whitesville Road area is mostly a rural area with a mixture of farms and mobile homes. He said his Company maintains nine wells and has recently replaced most of the pump houses on those wells. According to Mr. Hare, residential and commercial customers pay the same basic charge for water service. He said that his service area does not include very many commercial customers.

D. Joe Maready, an accountant, also testified for A.D. Hare. Maready proposed accounting adjustments in the areas of the amortization period for rate case expenses, electricity expenses of \$1,293.00 at Pump Station 9 and a \$17,000 loan to the Company

by its owner and President, Mrs. A.D. Hare that is not reflected in Commission's Staff's calculations. Maready stated on cross-examination that he did not disagree with Staff's adjustment on rate base concerning tap fees but that he had treated it in a different manner as reflected on page 5 of his Analysis, Adjustment Numbers 16 and 17. He said the rate base he calculated would still have the same bottom line as the rate base calculated by Staff. The Company's resultant operating margin under Maready's calculation was 14.58%.

The Public Witness, Richard W. Cleeve, Jr. also testified, as did Staff witnesses Barbara J. Crawford and William O. Richardson.

Crawford testified that Staff had used information provided by the Company in its Application, the Company's responses to Staff's Data Requests, and an audit of the Company's books and records to calculate the effect of additional operating revenues on the Company's operating margin. She reported that the Staff computed per book net operating income per return of \$8,128. She said using a per book rate base of \$155,209, the Staff had computed an operating margin of 0.61%. She said after the effect of Staff's accounting and pro forma adjustments, the Staff computed net operating loss per return of negative \$(3,919). Ms. Crawford continued her summary by stating the Staff had computed the adjusted rate base to be \$138,112. She said Staff computed the adjusted operating margin to be negative (5.04)%. Further, Ms. Crawford testified that after the proposed revenue increase of \$54,471, and the subsequent increase in other taxes, income taxes and customer growth, the effect of the proposed increase on net income for return was computed to be \$46,038. She said after pro forma adjustments to normalize the test

year and taking into account the effect of the proposed increase, the Staff computed net income for return of \$42,119. She said the Staff computed a rate base of \$138,112. Her testimony stated the operating margin increased to 18.84% after the effect of the proposed increase.

Ms. Crawford explained that Staff had not computed the \$17,000 loan from Mrs. Hare to the Company into its analysis of the Company's long term debt of \$33,622 because Staff had not received any documentation in the Company's records that reflected the nature of the debt to owners as shown in Mr. Maready's Exhibit, Adjustment 12 on page 4.

On cross examination, Ms. Crawford confirmed that the Staff and the Company were in accord on the majority of the adjustments. Ms. Crawford explained that Commission Staff had included the \$1,293 electricity adjustment for personal use because the Berkeley Electric Coop bill had designated the electricity use as residential. She further testified on cross examination that Staff used an 8 year amortization schedule for rate case expense rather than the 3 year period suggested by Mr. Maready because Staff looked at the years since this Company's last two rate cases and took the average. She said Staff could not have justified arbitrarily using a three year amortization period in this case.

Mr. Richardson testified that the Commission had no record of any complaints on this Company during the last three years. He explained that the Commission's record keeping only covers the last three years. He said the Company provided adequate service

to its customers, that the water was perfectly clear, and that he found nothing wrong with the water.

Finally, Mr. Hare returned to the witness stand to explain that the electricity charge of \$1,293 included under Operating Expense was actually for electricity that was provided to Pump Station #9 at Riverbirch Mobile Home Park where the well is located. He said all of the Berkeley Electric Coop bills are for pump stations and that the Company does not pay for any electricity for personal use.

An operating margin of 14.58% was recommended by Company witness Maready. Commission Staff recommended an operating margin of 18.84%. However, with the adjustment for electricity testified to by Mr. Hare as being for Pump Station No. 9, the operating margin becomes 18.32%. Therefore, this Commission grants an operating margin of 18.32% for A. D. Hare.

FINDINGS OF FACT

1. A. D. Hare Waterworks, Inc. is a corporation organized in the State of South Carolina and falls under the jurisdiction of the Commission.
2. A. D. Hare Waterworks, Inc. is a water utility providing water service to approximately 622 customers in and around Pinopolis, South Carolina, in Berkeley County, South Carolina.
3. A. D. Hare Waterworks, Inc.'s home office is located at Pinopolis, South Carolina, and its general address is given as Post Office Box 122, Pinopolis, South Carolina 29469.

4. A. D. Hare Waterworks is seeking a rate increase of the basic facilities charge for water service from \$8.00 to \$9.95 per month for residential and commercial customers. A. D. Hare is also seeking an increase of the commodity charge from \$2.10 to \$2.95 per month per customer and an increase in the Tap Fee from \$300 to \$500 per customer. The Company did not request an increase in the Reconnection Charge of \$30 or the New Customer Charge of \$20. (Testimony of Hare.)

5. The Commission Staff's adjustments should be adopted with the exception of the \$1293 in electricity charges for Pump Station Number 9 for the reasons stated in the testimony and exhibits of Staff witness Crawford and Company witness Hare.

6. The testimony presented justifies the granting of an operating margin of 18.32%, as calculated by the Staff, with the adjustment for electricity for Pump Station 9.

7. The Commission hereby approves the Company's full requested revenue increase of \$54,471.00.

CONCLUSIONS OF LAW

1. The Company's operations in South Carolina are subject to the jurisdiction of the Commission pursuant to S.C. Code Ann. Section 58-5-10, et seq. (Supp. 2001).

2. The Commission concludes that each of the Staff's adjustments proposed, with the exception of the \$1,293 electricity charge under Operating Expenses, is appropriate and each is hereby adopted, except the electricity charge of \$1,293 for Pump Station Number 9, by the Commission, based on the reasoning as stated above.

3. There is no statutory authority prescribing the method which this Commission must utilize to determine the lawfulness of the rate of a public utility. For a

water utility whose rate base has been substantially reduced by customer donations, tap fees, contributions in aid to construction, and book value in excess of investment, the Commission may decide to use the “operating ratio” and/or “operating margin” method for determining just and reasonable rates. The operating ratio is the percentage obtained by dividing total operating expenses by operating revenues; the operating margin is determined by dividing the total operating income for return by the total operating revenues of the utility. The Commission concludes that the use of the operating margin is appropriate in this case.

4. The Commission is mindful of the need to balance the respective interests of the Company and of the consumer. It is incumbent upon this Commission to consider not only the revenue requirement of the Company, but also the proposed price for the water, the quality of service, and the effect of the proposed rates upon the consumers.

5. Based upon all of these considerations, the Commission determines that the Company should have the opportunity to earn an 18.32% operating margin on its regulated water operations in and around Pinopolis, South Carolina. In order to have a reasonable opportunity to earn an 18.32% operating margin, the Company will need to produce \$204,244 in total annual operating revenues.

TABLE A

OPERATING MARGIN

Operating Revenues	\$204,244
Operating Expenses	<u>164,252</u>
Net Operating Income	39,992
Customer Growth	1,056
Net Income for Return	<u>41,048</u>
Interest Expenses	3,634
Operating Margin	<u>18.32%</u>

6. In order to earn the operating revenues necessary to earn an operating margin of 18.32%, the Company must earn revenues of \$204,244. In order to earn these revenues, we hold that the basic facilities charge for water service of \$9.95 per month for residential and commercial customers should be granted. After deducting interest expenses of \$3,634, the operating margin is 18.32%.

7. We also approve the proposed commodity charge of \$2.95 per 1,000 gallons.

8. Additionally, we approve a Tap Fee of \$500 per customer.

9. Accordingly, it is ordered that the rates attached in Appendix A are hereby approved for service rendered on or after the date of this Order.

10. It is ordered that if the approved schedule is not placed in effect within three (3) months after the date of this Order, the approved schedule shall not be charged without written permission of the Commission.

11. It is further ordered that the Company maintain its books and records for water operations in accordance with the NARUC Uniform System of Accounts for water utilities as adopted by this Commission.

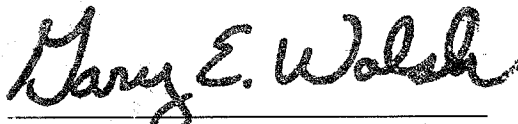
12. That this Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:



Chairman

ATTEST:



Executive Director

(SEAL)

APPENDIX A

**A. D. HARE WATERWORKS, INC.
P. O. BOX 122
PINOPOLIS, S. C. 29469
803-761-8444**

**FILED PURSUANT TO:
DOCKET NO. 2001-137-W
ORDER NO. 2002-535
EFFECTIVE DATE: JULY 26, 2002**

WATER SERVICE

MONTHLY CHARGES:

**BASIC FACILITIES CHARGE.....\$ 9.95
COMMODITY CHARGE PER 1,000 GALLONS.....\$ 2.95**

NEW CUSTOMER CHARGE.....\$ 20.00

RECONNECT CHARGE.....\$ 30.00

TAP FEE.....\$500.00